

**BATH COMMUNITY SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary information)**  
**YEAR ENDED JUNE 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Bath Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath Community Schools, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bath Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bath Community Schools as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008, on our consideration of Bath Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi - xii and 30, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bath Community Schools' basic financial statements. The additional information on pages 32 to 50 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Maner, Costinison & Ellis, P.C.*

October 24, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Bath Community Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### **FINANCIAL HIGHLIGHTS**

For the second time in six years, the District's general fund financial situation did not improve during fiscal year 2008. However, the financial performance was approximately \$53,000 stronger than was budgeted.

As expected, the athletics fund had greater expenses for 2008 than revenue and transfers in amounting to a \$3,461 decrease.

The Food Services Fund had greater expenses and transfers out for 2008 than revenues for a decrease of \$13,888.

During the 2007-2008 school year, Bath Community Schools spent almost \$700,000 on capital improvements through-out the District. These expenditures were predominantly funded in the 2004 Capital Projects Fund and Capital Projects Sinking Fund. The 2004 bond issue was completely spent as of June 30, 2008.

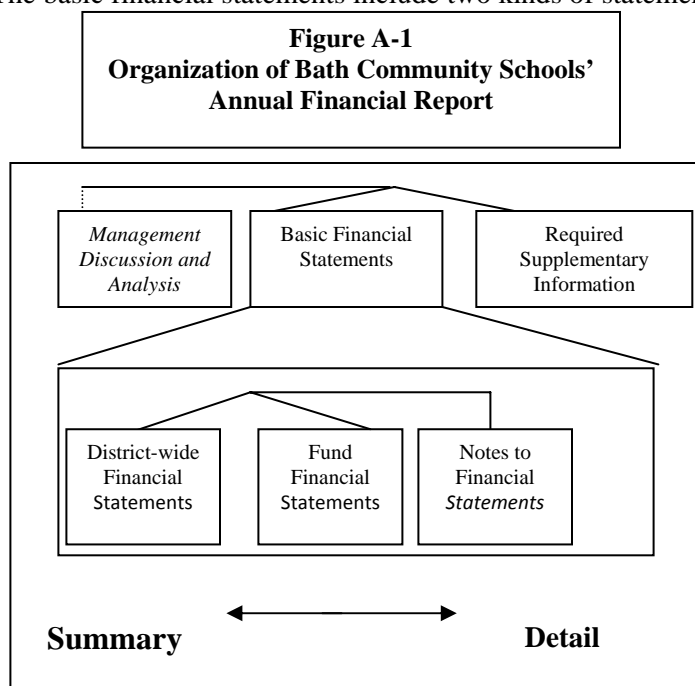
Total general fund revenues and expenditures were approximately \$7.9 million dollars with total general fund expenditures and other financing uses exceeding revenues by \$91,328. The District continues to participate in short-term cash flow loans, borrowing \$1,400,000 against anticipated state aid payments.

Student enrollment showed an increase.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<b>Figure A-2</b> <b>Major Features of District-wide and Fund Financial Statements</b>			
	<u>District-wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Bath Community Schools' funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

## **DISTRICT-WIDE STATEMENTS**

- The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.
- The two district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.
- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its building and site fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.



## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets were higher by \$295,984, on June 30, 2008 than the year before. The net asset position increased to \$1,220,682.

<b>Table A-3</b> <b>Bath Community Schools</b> <b>Net Assets</b>		
	<b>2008</b>	<b>2007</b>
Current assets	\$ 4,171,450	\$ 5,133,793
Capital assets	23,231,801	23,300,665
Total assets	27,403,251	28,434,458
Long-term debt outstanding	23,034,181	23,786,068
Other liabilities	3,148,388	3,723,692
Total liabilities	26,182,569	27,509,760
Net assets:		
Invested in capital assets, net of related debt	(283,154)	(85,628)
Restricted	699,566	502,627
Unrestricted	804,270	507,699
Total net assets	\$ 1,220,682	\$ 924,698

**Table A-4**  
**Changes in Bath Community Schools' Net Assets**

	<u>2008</u>	<u>2007</u>
Revenues:		
Program revenues:		
Charges for services	\$ 412,733	\$ 385,094
Federal and state categorical grants	549,585	548,439
General revenues:		
Property taxes	3,253,926	2,879,780
Investment	125,563	239,002
State aid - unrestricted	5,831,592	5,772,574
RESA	255,466	242,166
Other	64,829	54,831
Total revenues	<u>10,493,694</u>	<u>10,121,886</u>
Expenses:		
Instruction	4,771,053	4,591,926
Support services	2,759,155	2,707,008
Outgoing transfers and other	96,199	118,993
Community service	164,480	86,184
Food services	353,327	301,343
Athletics	248,241	226,352
Interest on long-term debt	958,007	1,031,568
Unallocated depreciation	847,248	793,908
Total expenses	<u>10,197,710</u>	<u>9,857,282</u>
Change in net assets	<u>\$ 295,984</u>	<u>\$ 264,604</u>

## District Governmental Activities

The District's good financial shape has come about through a number of areas.

- Proposal A, which established the student foundation grant concept, has increased the amount per student from \$5,075 per student in 1995 to \$7,204 per student in 2008.
- Bath Community Schools shares the cost of health insurance premium increases with its employees, as well as offering more affordable options such as a Health Savings Account. This practice has resulted in savings to the District.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The good financial performance of the District as a whole is reflected in its governmental funds, with a combined fund balance of \$2.052 million in 2008 compared to \$2.494 million in 2007. The fund balance decreased by approximately \$440,000 for the year.

### General Fund and Budget Highlights

During the 2008 fiscal year, the original District budget was amended several times to reflect changes which affected the District.

The initial amendment took place in the fall, once the student count and staff changes had been determined. All programs and staff were maintained.

The final amended budget was to have revenue be \$144,563 lower than expenses. Final results showed that revenues came in slightly higher than were anticipated and expenses came in slightly lower than anticipated. The net result was a decrease in general fund balance of \$91,328, decreasing the general fund balance to \$1,040,208 from \$1,131,536 at the end of fiscal year 2007.

General fund expenditures came within 0.5% of the budgeted total. Inventory controls allowed the District to reduce expenditures for summer cleaning and preparation for fall school opening. Local revenues came in higher than expected.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District's capital assets are as follows:

<b>Bath Community Schools' Capital Assets</b>				
	<b>2008</b>			<b>2007</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Net book value</b>
Land	\$ 114,130	\$ -	\$ 114,130	\$ 114,130
Buildings and improvements	29,053,599	7,529,079	21,524,520	21,605,996
Machinery and equipment	3,767,710	2,718,405	1,049,305	1,156,852
Transportation equipment	630,975	407,553	223,422	196,382
Total	<u>\$ 33,566,414</u>	<u>\$ 10,655,037</u>	<u>\$ 22,911,377</u>	<u>\$ 23,073,360</u>

## **LONG-TERM DEBT**

At year-end the District had \$23,864,955 long-term debt outstanding. More detailed information is available in Note 6 to the financial statements.

The District paid down its debt by \$846,668.

During the year, the District continued repaying the School Bond Loan Fund in the amount of \$330,863.

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

- The 2008-2009 foundation allowance has been finalized by the State of Michigan, and represents approximately 82 percent of total District revenue. The state has implemented a 1.5% increase in the per pupil foundation allowance but a weak state economy could require pro-rations in state aid.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts.
- Students count is projected to be lower over the next few years.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Bath Community Schools, 6175 E. Clark Road, Bath, Michigan 48808.

## **BASIC FINANCIAL STATEMENTS**

**BATH COMMUNITY SCHOOLS  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

<b>ASSETS</b>	<b><u>Governmental activities</u></b>
<b>CURRENT ASSETS:</b>	
Cash	\$          250
Investments	3,034,820
Receivables:	
Due from other governmental units	1,121,741
Inventories	<u>14,639</u>
<b>        TOTAL CURRENT ASSETS</b>	<b><u>4,171,450</u></b>
<b>NONCURRENT ASSETS:</b>	
Deferred charges, net of amortization	320,424
Capital assets	33,566,414
Less accumulated depreciation	<u>(10,655,037)</u>
<b>        TOTAL NONCURRENT ASSETS</b>	<b><u>23,231,801</u></b>
 <b>TOTAL ASSETS</b>	 <b><u><u>\$  27,403,251</u></u></b>

	<b>Governmental activities</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 33,759
Accrued salaries and related items	620,156
Accrued expenses	44,341
Accrued interest	198,306
Deferred revenue	21,052
Note payable	1,400,000
Current portion of long-term obligations	805,774
Current portion of compensated absences termination benefits	25,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,148,388</b>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term obligations	22,709,181
Noncurrent portion of compensated absences and termination benefits	325,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>23,034,181</b>
<b>TOTAL LIABILITIES</b>	<b>26,182,569</b>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	(283,154)
Restricted for capital projects sinking fund	404,008
Restricted for debt service	295,558
Unrestricted	804,270
<b>TOTAL NET ASSETS</b>	<b>1,220,682</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 27,403,251</b>

**BATH COMMUNITY SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 4,771,053	\$ -	\$ 374,481	\$ (4,396,572)
Support services	2,759,155	-	29,387	(2,729,768)
Community services	96,199	134,498	-	38,299
Outgoing transfers and other transactions	164,480	-	-	(164,480)
Food services	353,327	200,129	145,717	(7,481)
Athletics	248,241	78,106	-	(170,135)
Interest on long-term debt	958,007	-	-	(958,007)
Unallocated depreciation	847,248	-	-	(847,248)
Total governmental activities	<u>\$ 10,197,710</u>	<u>\$ 412,733</u>	<u>\$ 549,585</u>	<u>(9,235,392)</u>
General revenues:				
Property taxes, levied for general purposes				1,173,226
Property taxes, levied for debt service				2,080,700
Investment earnings				125,563
State sources				5,831,592
Intermediate sources				255,466
Other				<u>64,829</u>
Total general revenues				<u>9,531,376</u>
<b>CHANGE IN NET ASSETS</b>				295,984
<b>NET ASSETS, beginning of year</b>				<u>924,698</u>
<b>NET ASSETS, end of year</b>				<u><u>\$ 1,220,682</u></u>

See notes to financial statements.



**BATH COMMUNITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	<u>General Fund</u>	<u>Capital projects sinking fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 250	\$ -	\$ -	\$ 250
Investments	1,978,476	407,463	648,881	3,034,820
Receivables:				
Due from other governmental units	1,121,741	-	-	1,121,741
Due from other funds	45,092	-	-	45,092
Inventories	800	-	13,839	14,639
<b>TOTAL ASSETS</b>	<u><u>\$ 3,146,359</u></u>	<u><u>\$ 407,463</u></u>	<u><u>\$ 662,720</u></u>	<u><u>\$ 4,216,542</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 30,304	\$ 3,455	\$ -	\$ 33,759
Accrued expenses	44,341	-	-	44,341
Accrued salaries and related items	620,156	-	-	620,156
Due to other funds	-	-	45,092	45,092
Deferred revenue	11,350	-	9,702	21,052
Note payable	1,400,000	-	-	1,400,000
<b>TOTAL LIABILITIES</b>	<u><u>2,106,151</u></u>	<u><u>3,455</u></u>	<u><u>54,794</u></u>	<u><u>2,164,400</u></u>
<b>FUND BALANCES:</b>				
Reserved for inventories	800	-	13,839	14,639
Reserved for debt service	-	-	493,864	493,864
Reserved for capital outlay	-	404,008	-	404,008

See notes to financial statements.

	<b>General Fund</b>	<b>Capital projects sinking fund</b>	<b>Other nonmajor governmental funds</b>	<b>Total governmental funds</b>
Unreserved:				
Designated for curriculum development initiative	\$ 270,169	\$ -	\$ -	\$ 270,169
Designated for building carryover	420,454	-	-	420,454
Designated for department carryover	289,304	-	-	289,304
Designated for severance pay	562,520	-	-	562,520
Designated for subsequent year expenditures	389,181	-	-	389,181
Undesignated	(892,220)	-	100,223	(791,997)
<b>TOTAL FUND BALANCES</b>	<u>1,040,208</u>	<u>404,008</u>	<u>607,926</u>	<u>2,052,142</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 3,146,359</u>	<u>\$ 407,463</u>	<u>\$ 662,720</u>	<u>\$ 4,216,542</u>
<b>Total governmental fund balances</b>				\$ 2,052,142
Amounts reported for governmental activities in the statement of net assets are different because:				
Value of amortized bond issuance costs			\$ 361,060	
Accumulated amortization			<u>(40,636)</u>	
				320,424
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			33,566,414	
Accumulated depreciation is			<u>(10,655,037)</u>	
				22,911,377
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable				(23,514,955)
Compensated absences				(350,000)
Accrued interest is not included as a liability in government funds, it is recorded when paid				<u>(198,306)</u>
<b>Net assets of governmental activities</b>				<u>\$ 1,220,682</u>

See notes to financial statements.

**BATH COMMUNITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2008**

	<u>General Fund</u>	<u>2004 Capital projects fund</u>	<u>Capital projects sinking fund</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>REVENUES:</b>					
Local sources:					
Property taxes	\$ 1,173,226	\$ -	\$ 215,184	\$ 1,865,516	\$ 3,253,926
Tuition	132,001	-	-	38,781	170,782
Investment earnings	72,386	2,946	14,898	35,333	125,563
Food sales and athletics	-	-	-	237,548	237,548
Other	67,326	-	-	1,906	69,232
Total local sources	1,444,939	2,946	230,082	2,179,084	3,857,051
State sources	6,142,331	-	-	15,767	6,158,098
Federal sources	93,129	-	-	129,950	223,079
Incoming transfers and other	255,466	-	-	-	255,466
Total revenues	7,935,865	2,946	230,082	2,324,801	10,493,694
<b>EXPENDITURES:</b>					
Current:					
Instruction	4,735,273	-	-	-	4,735,273
Supporting services	2,876,969	-	-	-	2,876,969
Food service activities	-	-	-	334,002	334,002
Athletic activities	-	-	-	239,336	239,336
Community service activities	96,199	-	-	-	96,199
Outgoing transfers and other transactions	164,480	-	-	-	164,480
Capital outlay	-	216,880	329,131	28,230	574,241

See notes to financial statements.

	<b>General Fund</b>	<b>2004 Capital projects fund</b>	<b>Capital projects sinking fund</b>	<b>Other nonmajor governmental funds</b>	<b>Total governmental funds</b>
Debt service:					
Principal repayment	\$ -	\$ -	\$ -	\$ 735,000	\$ 735,000
Interest	-	-	-	767,369	767,369
Bond issuance costs	-	-	-	110,679	110,679
Total expenditures	<u>7,872,921</u>	<u>216,880</u>	<u>329,131</u>	<u>2,214,616</u>	<u>10,633,548</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>62,944</u>	<u>(213,934)</u>	<u>(99,049)</u>	<u>110,185</u>	<u>(139,854)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Redemption of school bond loan principal	-	-	-	(330,863)	(330,863)
Proceeds from issuance of bonds	-	-	-	5,585,000	5,585,000
Payments to refunded bond escrow	-	-	-	(5,705,475)	(5,705,475)
Bond premium	-	-	-	148,654	148,654
Operating transfers from other funds	17,796	-	430	202,532	220,758
Operating transfers to other funds	<u>(172,068)</u>	<u>(430)</u>	<u>-</u>	<u>(48,260)</u>	<u>(220,758)</u>
Total other financing sources (uses)	<u>(154,272)</u>	<u>(430)</u>	<u>430</u>	<u>(148,412)</u>	<u>(302,684)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(91,328)</u>	<u>(214,364)</u>	<u>(98,619)</u>	<u>(38,227)</u>	<u>(442,538)</u>
<b>FUND BALANCES:</b>					
Beginning of year	<u>1,131,536</u>	<u>214,364</u>	<u>502,627</u>	<u>646,153</u>	<u>2,494,680</u>
End of year	<u><u>\$ 1,040,208</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 404,008</u></u>	<u><u>\$ 607,926</u></u>	<u><u>\$ 2,052,142</u></u>

See notes to financial statements.

**BATH COMMUNITY SCHOOLS  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
YEAR ENDED JUNE 30, 2008**

**Net change in fund balances total governmental funds** \$ (442,538)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(847,248)
Capital outlay	685,265

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	159,022
Accrued interest payable, end of the year	(198,306)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Proceeds from issuance of bonds	(5,585,000)
Payments on school bond loan fund - net	179,509
Payments on debt	6,345,000
Bond issuance costs	110,679
Premium on issuance of bonds	(148,654)
Deferred loss on refunding	95,475
Amortization of bond issuance costs	(17,559)
Amortization of deferred loss on refunding	(23,891)
Amortization of bond premium	22,763
Amortization of bond discount	(2,753)

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences, beginning of the year	314,220
Accrued compensated absences, end of the year	<u>(350,000)</u>

<b>Change in net assets of governmental activities</b>	<b><u><u>\$ 295,984</u></u></b>
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**BATH COMMUNITY SCHOOLS  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
YEAR ENDED JUNE 30, 2008**

	<u>Agency funds</u>
<b>ASSETS:</b>	
Investments	\$     164,686
	<u>                    </u>
 <b>LIABILITIES:</b>	
Due to general fund	\$         6,630
Due to student and other groups	<u>      158,056</u>
	 \$     164,686
	<u>                    </u>

## **BATH COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Bath Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

#### **A. Reporting Entity**

The Bath Community Schools (the "District") is governed by the Bath Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in GASB Statements No. 14 and 39.

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Continued)**

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The 2004 *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The *capital projects sinking fund* accounts for the receipt of the sinking fund millage proceeds and the acquisition of fixed assets or construction of capital projects. The District has complied with applicable provisions of §1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95 relating to sinking funds.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.



**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Concluded)**

The following is a summary of the revenue and expenditures in the Bath Community Schools 2004 capital projects from the inception of the fund through the current fiscal year:

Revenues and bond proceeds	<u>\$ 15,346,900</u>
Expenditures and transfers	<u>\$ 15,346,900</u>

**Other Non-major Funds**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments for principal and interest on long-term general obligation debt of governmental funds.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when appropriation is received.

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund - non-homestead	17.5520
Capital projects - sinking fund - all properties	0.9254
Debt service funds - all properties	8.0000

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$1,000.

6. Compensated absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

9. Net asset reporting

In the computation of invested in capital assets, net of related debt, school bond loan fund, and school bond revolving fund principal proceeds of \$2,190,290 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of \$1,034,472 has been included in the calculation of unrestricted net Assets.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue, debt service and capital projects funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK**

As of June 30, 2008, the District had the following investments.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (Years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF External Investment pool - MICMS	\$ 328,148	0.0027	AAAm	10.26%
MILAF External Investment pool - MIMAX	2,871,358	0.0027	AAAm	89.74%
Total fair value	<u>\$ 3,199,506</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		
1 day maturity equals 0.0027, one year equals 1.00				

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)**

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the District’s investments is the same as the value of the pool shares.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2008, the District had no deposits.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.



**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)**

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts are previously reported in Note 3:

Petty cash	\$ 250
Investments	<u>3,034,820</u>
	<u>\$ 3,035,070</u>

The above amounts are reported in the financial statements as follows:

Cash - district-wide	\$ 250
Investments - agency fund	164,686
Investments - district-wide	<u>3,034,820</u>
	<u>\$ 3,199,756</u>

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 114,130	\$ -	\$ -	\$ 114,130
Capital assets, being depreciated:				
Land improvements	3,041,218	408,558	-	3,449,776
Buildings and additions	25,497,728	106,095	-	25,603,823
Machinery and equipment	3,674,008	93,702	-	3,767,710
Transportation equipment	602,482	76,910	48,417	630,975
Total capital assets, being depreciated	32,815,436	685,265	48,417	33,452,284
Accumulated depreciation:				
Land improvements	400,225	160,345	-	560,570
Buildings and additions	6,532,725	435,784	-	6,968,509
Machinery and equipment	2,517,156	201,249	-	2,718,405
Transportation equipment	406,100	49,870	48,417	407,553
Total accumulated depreciation	9,856,206	847,248	48,417	10,655,037
Net capital assets being depreciated	22,959,230	(161,983)	-	22,797,247
Net governmental capital assets	\$ 23,073,360	\$ (161,983)	\$ -	\$ 22,911,377

Depreciation for the fiscal year ended June 30, 2008 amounted to \$847,248. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - NOTE PAYABLE**

At June 30, 2008, the District has a note payable outstanding of \$1,400,000. The note has an interest rate of 3.68% and matures August 20, 2008. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2007	Additions	Payments	Balance June 30, 2008
<u>\$ 1,975,000</u>	<u>\$ 1,400,000</u>	<u>\$ 1,975,000</u>	<u>\$ 1,400,000</u>

**NOTE 6 - LONG-TERM DEBT**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

The following is a summary of the long-term debt transactions of the District:

	General obligation bonds	School bond loan fund	Limited obligation Durant bonds	Sub-total bonded and notes	Compensated absences	Total
Balance, July 1, 2007	\$ 20,931,873	\$ 3,404,271	\$ 61,259	\$ 24,397,403	\$ 314,220	\$ 24,711,623
Additions	5,642,061	151,354		5,793,415	35,780	5,829,195
Deletions	<u>6,345,000</u>	<u>330,863</u>		<u>6,675,863</u>		<u>6,675,863</u>
Balance, June 30, 2008	20,228,934	3,224,762	61,259	23,514,955	350,000	23,864,955
Less current portion	<u>800,000</u>		<u>5,774</u>	<u>805,774</u>	<u>25,000</u>	<u>830,774</u>
Total due after one year	<u>\$ 19,428,934</u>	<u>\$ 3,224,762</u>	<u>\$ 55,485</u>	<u>\$ 22,709,181</u>	<u>\$ 325,000</u>	<u>\$ 23,034,181</u>

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

Long-term obligation debt at June 30, 2008 is comprised of the following:

1993 serial bonds due in annual installments of \$100,000 through May 1, 2010, plus interest from 4.2% to 5.5%.	\$ 200,000
2008 serial bonds due in annual installments of \$310,000 to \$350,000 through May 1, 2025, with interest from 3.0% to 5.0%.	5,585,000
Limited obligation (Durant) bonds with annual installments of \$5,774 to \$36,146 through May 15, 2013, plus interest at 4.76%. Certain State Aid payments have been pledged as security.	61,259
2004 serial bonds due in annual installments of \$100,000 to \$750,000 through May 1, 2021, with interest from 2.75% to 5.00%.	6,625,000
2006 serial bonds due in annual installments of \$40,000 to \$825,000 through May 1, 2028, with interest from 4.00% to 4.50%.	8,025,000
Unamortized premium on bonds.	379,225
Unamortized discount on bonds.	(55,744)
Unamortized losses on bond refunding	<u>(529,547)</u>
Total bonded debt	20,290,193
Borrowings from the State of Michigan under the School Bond Loan Fund, including interest.	3,224,762
Obligation under contract from compensated absences and retirement incentives.	<u>350,000</u>
Total long-term debt	<u><u>\$ 23,864,955</u></u>

Interest expense (all funds) for the year ended June 30, 2008 was \$821,308.

An amount of \$493,864 is available in the debt service funds to service the general obligation debt.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

The annual requirements to amortize long-term debt outstanding as of June 30, 2008, including interest of \$9,489,721, are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 805,774	\$ 866,663	\$ 1,672,437
2010	831,048	795,568	1,626,616
2011	856,337	768,030	1,624,367
2012	911,146	752,310	1,663,456
2013	911,954	710,562	1,622,516
2014 - 2018	5,000,000	3,019,819	8,019,819
2019 - 2023	5,610,000	1,828,831	7,438,831
2024 - 2028	4,745,000	713,700	5,458,700
2029	825,000	34,238	859,238
Total	20,496,259	9,489,721	29,985,980
Unamortized premium	379,225	-	379,225
Unamortized discount	(55,744)	-	(55,744)
Deferred amount on bond refunding	(529,547)	-	(529,547)
	20,290,193	9,489,721	29,779,914
Due to school bond loan fund	3,224,762	-	3,224,762
Accumulated compensated absences	350,000	-	350,000
	<u>\$ 23,864,955</u>	<u>\$ 9,489,721</u>	<u>\$ 33,354,676</u>

Borrowing from the State of Michigan - The school bond loans payable represent notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranging from 4.38456% - 4.82341% for the School Revolving Fund notes and 4.25% - 4.75% for the School Bond Loan Fund notes have been assessed for the year ended June 30, 2008. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 8.0 mills. The school district is required to levy 8.0 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Concluded)**

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

On February 12, 2008, Bath Community Schools issued general obligation bonds of \$5,585,000 with an interest rate ranging from 3.00% to 5.00% to advance refund bonds with an interest rate ranging from 3.4% to 4.58%. The bonds mature on May 1, 2025. The general obligation bonds were issued at a premium after paying issuance costs of \$110,679, the net proceeds were \$5,622,974. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in a irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by approximately \$25,000, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$283,000.

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2008, \$13,090,000 of bonds outstanding are considered defeased.

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2008 are as follows:

<u>Receivable fund</u>		<u>Payable fund</u>	
General	<u>\$ 45,092</u>	Special revenue	\$ 45,036
		Debt service	<u>56</u>
	<u><u>\$ 45,092</u></u>		<u><u>\$ 45,092</u></u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in accounting systems, and (3) payments between funds are made.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 17.74% of payroll through September 30, 2007 and 16.72% effective October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$780,000, \$770,000 and \$690,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement or post-employment benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

**BATH COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. In the past three years, the District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

**NOTE 10 - CONTINGENCIES**

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

**NOTE 11 - TRANSFERS**

The general fund transferred \$164,272 to the athletic fund during the current fiscal year to balance the athletic fund budget and the food service fund transferred \$10,000 (net of \$7,796 transferred from the general fund) to the general fund for indirect costs. \$430 was transferred between the sinking fund and the 2004 capital projects fund to fund the last projects of the 2004 fund.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**BATH COMMUNITY SCHOOLS  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2008**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>REVENUES:</b>				
Local sources	\$ 1,318,938	\$ 1,431,010	\$ 1,444,939	\$ 13,929
State sources	6,020,930	6,140,121	6,142,331	2,210
Federal sources	99,480	96,931	93,129	(3,802)
Incoming transfers and other	238,666	255,488	255,466	(22)
Total revenues	<u>7,678,014</u>	<u>7,923,550</u>	<u>7,935,865</u>	<u>12,315</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	3,990,888	4,085,702	4,078,825	6,877
Added needs	785,149	655,036	656,448	(1,412)
Total instruction	<u>4,776,037</u>	<u>4,740,738</u>	<u>4,735,273</u>	<u>5,465</u>
Supporting services:				
Pupil	151,621	142,465	142,489	(24)
Instructional staff	196,978	201,002	201,303	(301)
General administration	337,760	414,342	409,814	4,528
School administration	484,608	480,712	480,809	(97)
Business	230,587	138,718	137,848	870
Operation/maintenance	957,421	932,079	919,741	12,338
Pupil transportation	374,329	391,849	393,415	(1,566)
Other	211,901	200,387	191,550	8,837
Total supporting services	<u>2,945,205</u>	<u>2,901,554</u>	<u>2,876,969</u>	<u>24,585</u>
Community services	<u>91,367</u>	<u>98,067</u>	<u>96,199</u>	<u>1,868</u>
Outgoing transfers and other transactions	<u>170,000</u>	<u>171,237</u>	<u>164,480</u>	<u>6,757</u>
Total expenditures	<u>7,982,609</u>	<u>7,911,596</u>	<u>7,872,921</u>	<u>38,675</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(304,595)</u>	<u>11,954</u>	<u>62,944</u>	<u>50,990</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers from other funds	-	17,796	17,796	-
Operating transfers to other funds	(166,916)	(174,313)	(172,068)	2,245
Total other financing uses	<u>(166,916)</u>	<u>(156,517)</u>	<u>(154,272)</u>	<u>2,245</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (471,511)</u>	<u>\$ (144,563)</u>	<u>(91,328)</u>	<u>\$ 53,235</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>1,131,536</u>	
End of year			<u>\$ 1,040,208</u>	

## **ADDITIONAL INFORMATION**

**BATH COMMUNITY SCHOOLS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES  
JUNE 30, 2008**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Investments	\$ 154,961	\$ 493,920	\$ 648,881
Inventories	13,839	-	13,839
	<u>13,839</u>	<u>-</u>	<u>13,839</u>
<b>TOTAL ASSETS</b>	<u>\$ 168,800</u>	<u>\$ 493,920</u>	<u>\$ 662,720</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Due to other funds	\$ 45,036	\$ 56	\$ 45,092
Deferred revenue	9,702	-	9,702
	<u>9,702</u>	<u>-</u>	<u>9,702</u>
<b>TOTAL LIABILITIES</b>	<u>54,738</u>	<u>56</u>	<u>54,794</u>
<b>FUND BALANCES:</b>			
Reserved for inventories	13,839	-	13,839
Reserved for debt service	-	493,864	493,864
Unreserved, undesignated	100,223	-	100,223
	<u>100,223</u>	<u>-</u>	<u>100,223</u>
<b>TOTAL FUND BALANCES</b>	<u>114,062</u>	<u>493,864</u>	<u>607,926</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 168,800</u>	<u>\$ 493,920</u>	<u>\$ 662,720</u>

**BATH COMMUNITY SCHOOLS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2008**

	<b>Special revenue</b>	<b>Debt service</b>	<b>Total nonmajor governmental funds</b>
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$ -	\$ 1,865,516	\$ 1,865,516
Investment earnings	5,995	29,338	35,333
Food sales and admissions	237,548	-	237,548
Tuition	38,781	-	38,781
Other	1,906	-	1,906
Total local sources	284,230	1,894,854	2,179,084
State sources	15,767	-	15,767
Federal sources	129,950	-	129,950
Total revenues	429,947	1,894,854	2,324,801
<b>EXPENDITURES:</b>			
Current:			
Food service activities	334,002	-	334,002
Athletic activities	239,336	-	239,336
Capital outlay	28,230	-	28,230
Debt service:			
Principal repayment	-	735,000	735,000
Interest expense	-	767,369	767,369
Bond issuance costs	-	110,679	110,679
Total expenditures	601,568	1,613,048	2,214,616
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(171,621)	281,806	110,185
<b>OTHER FINANCING SOURCES (USES):</b>			
Redemption of school bond loan principal	-	(330,863)	(330,863)
Proceeds from sale of refunding bonds	-	5,585,000	5,585,000
Payment to refunded bond escrows	-	(5,705,475)	(5,705,475)
Bond premium	-	148,654	148,654
Operating transfers from other funds	172,068	30,464	202,532
Operating transfers to other funds	(17,796)	(30,464)	(48,260)
Total other financing sources (uses)	154,272	(302,684)	(148,412)
<b>NET CHANGE IN FUND BALANCES</b>	(17,349)	(20,878)	(38,227)
<b>FUND BALANCES:</b>			
Beginning of year	131,411	514,742	646,153
End of year	\$ 114,062	\$ 493,864	\$ 607,926

**BATH COMMUNITY SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008**

	<u>Food Service</u>	<u>Athletics</u>	<u>Totals</u>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Investments	\$ 94,842	\$ 60,119	\$ 154,961
Inventories	<u>13,839</u>	<u>-</u>	<u>13,839</u>
<b>TOTAL ASSETS</b>	<u>\$ 108,681</u>	<u>\$ 60,119</u>	<u>\$ 168,800</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Due to other funds	\$ 28,718	\$ 16,318	\$ 45,036
Deferred revenue	<u>9,702</u>	<u>-</u>	<u>9,702</u>
<b>TOTAL LIABILITIES</b>	<u>38,420</u>	<u>16,318</u>	<u>54,738</u>
<b>FUND BALANCES:</b>			
Reserved for inventories	13,839	-	13,839
Unreserved/undesignated	<u>56,422</u>	<u>43,801</u>	<u>100,223</u>
<b>TOTAL FUND BALANCES</b>	<u>70,261</u>	<u>43,801</u>	<u>114,062</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 108,681</u>	<u>\$ 60,119</u>	<u>\$ 168,800</u>

**BATH COMMUNITY SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2008**

	<b>Food Service</b>	<b>Athletics</b>	<b>Totals</b>
<b>REVENUES:</b>			
Sales	\$ 198,223	\$ -	\$ 198,223
Tuition	-	38,781	38,781
State aid	15,767	-	15,767
Federal aid	129,950	-	129,950
Admissions	-	39,325	39,325
Investment earnings	3,593	2,402	5,995
Other	1,906	-	1,906
Total revenues	349,439	80,508	429,947
<b>EXPENDITURES:</b>			
Salaries	116,357	147,627	263,984
Benefits	39,680	36,416	76,096
Purchased services	4,465	31,229	35,694
Supplies and materials	170,656	18,240	188,896
Capital outlay	19,325	8,905	28,230
Other expenses	2,844	5,824	8,668
Total expenditures	353,327	248,241	601,568
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(3,888)	(167,733)	(171,621)
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers from other funds	7,796	164,272	172,068
Operating transfers to other funds	(17,796)	-	(17,796)
Total other financing sources (uses)	(10,000)	164,272	154,272
<b>NET CHANGE IN FUND BALANCES</b>	(13,888)	(3,461)	(17,349)
<b>FUND BALANCES:</b>			
Beginning of year	84,149	47,262	131,411
End of year	\$ 70,261	\$ 43,801	\$ 114,062

**BATH COMMUNITY SCHOOLS  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008**

	<u>1993</u>	<u>1998</u>	<u>2004</u>	<u>2006</u>	<u>2008</u>	<u>Total</u>
<b>ASSETS</b>						
<b>ASSETS:</b>						
Investments	<u>\$ 6,282</u>	<u>\$ 27,204</u>	<u>\$ 149,552</u>	<u>\$ 166,565</u>	<u>\$ 144,317</u>	<u>\$ 493,920</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Due to other governmental funds	\$ 3	\$ 26	\$ 27	\$ -	\$ -	\$ 56
<b>FUND BALANCES:</b>						
Reserved for debt service	<u>6,279</u>	<u>27,178</u>	<u>149,525</u>	<u>166,565</u>	<u>144,317</u>	<u>493,864</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 6,282</u>	<u>\$ 27,204</u>	<u>\$ 149,552</u>	<u>\$ 166,565</u>	<u>\$ 144,317</u>	<u>\$ 493,920</u>



**BATH COMMUNITY SCHOOLS  
DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2008**

	<u>1973</u>	<u>1991</u>	<u>1993</u>	<u>1995</u>	<u>1998</u>	<u>2004</u>	<u>2006</u>	<u>2008</u>	<u>Total</u>
<b>REVENUES:</b>									
Local sources:									
Property taxes	\$ -	\$ -	\$ 107,346	\$ -	\$ 532,213	\$ 706,452	\$ 380,133	\$ 139,372	\$ 1,865,516
Interest	-	-	1,018	-	7,027	8,009	8,339	4,945	29,338
Total revenues	-	-	108,364	-	539,240	714,461	388,472	144,317	1,894,854
<b>EXPENDITURES:</b>									
Redemption of bonds	-	-	80,000	-	330,000	325,000	-	-	735,000
Interest on bonded debt	-	-	15,721	-	134,967	289,875	326,806	-	767,369
Bond issuance costs	-	-	-	-	-	-	-	110,679	110,679
Total expenditures	-	-	95,721	-	464,967	614,875	326,806	110,679	1,613,048
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	-	-	12,643	-	74,273	99,586	61,666	33,638	281,806
<b>OTHER FINANCING SOURCES:</b>									
Redemption of school bond loan principal	-	-	(18,545)	-	(131,635)	(115,612)	(65,071)	-	(330,863)
Proceeds from sale of refunding bonds	-	-	-	-	-	-	-	5,585,000	5,585,000
Payment to refunded bond escrows	-	-	-	-	(82,500)	-	-	(5,622,975)	(5,705,475)
Bond premium	-	-	-	-	-	-	-	148,654	148,654
Operating transfers from other funds	-	-	-	797	29,667	-	-	-	30,464
Operating transfers to other funds	(656)	(29,011)	-	-	-	-	(797)	-	(30,464)
Total other financing sources (uses)	(656)	(29,011)	(18,545)	797	(184,468)	(115,612)	(65,868)	110,679	(302,684)
<b>NET CHANGE IN FUND BALANCES</b>	(656)	(29,011)	(5,902)	797	(110,195)	(16,026)	(4,202)	144,317	(20,878)
<b>FUND BALANCES:</b>									
Beginning of year	656	29,011	12,181	(797)	137,373	165,551	170,767	-	514,742
End of year	\$ -	\$ -	\$ 6,279	\$ -	\$ 27,178	\$ 149,525	\$ 166,565	\$ 144,317	\$ 493,864

**BATH COMMUNITY SCHOOLS  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
YEAR ENDED JUNE 30, 2008**

	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>LOCAL SOURCES:</b>			
Property taxes	\$ 1,173,000	\$ 1,173,226	\$ 226
Tuition	127,344	132,001	4,657
Investment earnings	70,000	72,386	2,386
Other local revenue	60,666	67,326	6,660
<b>TOTAL LOCAL SOURCES</b>	<b>1,431,010</b>	<b>1,444,939</b>	<b>13,929</b>
<b>STATE SOURCES:</b>			
Foundation grant	6,033,492	6,035,704	2,212
Other state revenue	106,629	106,627	(2)
<b>TOTAL STATE SOURCES</b>	<b>6,140,121</b>	<b>6,142,331</b>	<b>2,210</b>
<b>FEDERAL SOURCES:</b>			
Title I	63,742	63,742	-
Title II - improving teacher quality	28,990	28,990	-
Other federal revenue	4,199	397	(3,802)
<b>TOTAL FEDERAL SOURCES</b>	<b>96,931</b>	<b>93,129</b>	<b>(3,802)</b>
<b>INCOMING TRANSFERS AND OTHER TRANSACTIONS:</b>			
Other	255,488	255,466	(22)
<b>TOTAL REVENUES</b>	<b>7,923,550</b>	<b>7,935,865</b>	<b>12,315</b>
<b>OTHER FINANCING SOURCES:</b>			
Operating transfers	17,796	17,796	-
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b>\$ 7,941,346</b>	<b>\$ 7,953,661</b>	<b>\$ 12,315</b>

**BATH COMMUNITY SCHOOLS  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
YEAR ENDED JUNE 30, 2008**

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
<b>INSTRUCTION:</b>			
Basic programs:			
Elementary:			
Salaries	\$ 1,173,946	\$ 1,173,842	\$ 104
Benefits	577,555	573,834	3,721
Purchased services	13,970	13,958	12
Supplies and materials	22,715	22,694	21
Other expenses	376	376	-
Capital outlay	150	-	150
Total elementary	<u>1,788,712</u>	<u>1,784,704</u>	<u>4,008</u>
Middle school:			
Salaries	631,137	632,832	(1,695)
Benefits	326,285	324,373	1,912
Purchased services	6,538	5,709	829
Supplies and materials	10,260	10,260	-
Other expenses	615	620	(5)
Total middle school	<u>974,835</u>	<u>973,794</u>	<u>1,041</u>
High school:			
Salaries	791,524	794,892	(3,368)
Benefits	429,741	426,027	3,714
Purchased services	12,230	11,023	1,207
Supplies and materials	14,725	14,724	1
Other expenses	765	765	-
Total high school	<u>1,248,985</u>	<u>1,247,431</u>	<u>1,554</u>
Pre-school:			
Salaries	19,877	20,086	(209)
Benefits	13,887	14,074	(187)
Purchased services	540	525	15
Supplies and materials	1,940	2,036	(96)
Total pre-school	<u>36,244</u>	<u>36,721</u>	<u>(477)</u>

**BATH COMMUNITY SCHOOLS  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
YEAR ENDED JUNE 30, 2008**

	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>INSTRUCTION (Concluded):</b>			
Summer school:			
Salaries	\$ 425	\$ 425	\$ -
Benefits	105	104	1
Purchased services	2,987	2,837	150
Supplies and materials	33,409	32,809	600
Total summer school	36,926	36,175	751
Total basic programs	4,085,702	4,078,825	6,877
Added needs:			
Special education:			
Salaries	312,832	314,289	(1,457)
Benefits	147,482	146,157	1,325
Purchased services	2,111	1,883	228
Supplies and materials	1,358	1,433	(75)
Other expenses	3,587	3,612	(25)
Total special education	467,370	467,374	(4)
Compensatory education:			
Salaries	125,565	126,860	(1,295)
Benefits	60,901	61,014	(113)
Purchased services	1,200	1,200	-
Total compensatory education	187,666	189,074	(1,408)
Total added needs	655,036	656,448	(1,412)
<b>TOTAL INSTRUCTION</b>	4,740,738	4,735,273	5,465

**BATH COMMUNITY SCHOOLS  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
YEAR ENDED JUNE 30, 2008**

	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>SUPPORTING SERVICES:</b>			
Pupil services:			
Salaries	\$ 85,484	\$ 85,484	\$ -
Benefits	51,917	51,789	128
Purchased services	2,394	2,605	(211)
Supplies and materials	2,670	2,611	59
	<u>142,465</u>	<u>142,489</u>	<u>(24)</u>
Total pupil services			
	<u>142,465</u>	<u>142,489</u>	<u>(24)</u>
Instructional staff services:			
Salaries	125,156	125,466	(310)
Benefits	61,571	61,363	208
Purchased services	-	500	(500)
Supplies and materials	10,710	10,409	301
Other expenses	3,565	3,565	-
	<u>201,002</u>	<u>201,303</u>	<u>(301)</u>
Total instructional staff			
	<u>201,002</u>	<u>201,303</u>	<u>(301)</u>
General administration:			
Salaries	214,481	213,987	494
Benefits	104,509	104,438	71
Purchased services	86,786	83,331	3,455
Supplies and materials	3,096	3,081	15
Other expenses	5,270	4,977	293
Capital outlay	200	-	200
	<u>414,342</u>	<u>409,814</u>	<u>4,528</u>
Total general administration			
	<u>414,342</u>	<u>409,814</u>	<u>4,528</u>

**BATH COMMUNITY SCHOOLS  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
YEAR ENDED JUNE 30, 2008**

	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>SUPPORTING SERVICES (Continued) :</b>			
School administration:			
Salaries	\$ 330,147	\$ 330,263	\$ (116)
Benefits	132,168	132,027	141
Purchased services	11,434	11,558	(124)
Supplies and materials	3,105	3,104	1
Other expenses	1,802	1,802	-
Capital outlay	2,056	2,055	1
	<hr/>	<hr/>	<hr/>
Total school administration	480,712	480,809	(97)
	<hr/>	<hr/>	<hr/>
Business services:			
Benefits	3,557	3,666	(109)
Purchased services	32,328	32,328	-
Other expenses	101,548	100,569	979
Capital outlay	1,285	1,285	-
	<hr/>	<hr/>	<hr/>
Total business services	138,718	137,848	870
	<hr/>	<hr/>	<hr/>
Operations and maintenance:			
Salaries	280,904	279,531	1,373
Benefits	198,585	198,058	527
Purchased services	422,261	412,078	10,183
Supplies and materials	28,411	28,174	237
Other expenses	600	582	18
Capital outlay	1,318	1,318	-
	<hr/>	<hr/>	<hr/>
Total operations and maintenance	932,079	919,741	12,338
	<hr/>	<hr/>	<hr/>

**BATH COMMUNITY SCHOOLS  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
YEAR ENDED JUNE 30, 2008**

	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>SUPPORTING SERVICES (Concluded):</b>			
Transportation:			
Salaries	\$ 144,319	\$ 143,627	\$ 692
Benefits	61,460	60,684	776
Purchased services	44,382	47,618	(3,236)
Supplies and materials	63,339	63,137	202
Other expenses	1,439	1,439	-
Capital outlay	76,910	76,910	-
	<hr/>	<hr/>	<hr/>
Total transportation	391,849	393,415	(1,566)
	<hr/>	<hr/>	<hr/>
Other supporting services:			
Salaries	73,600	72,092	1,508
Benefits	39,517	39,150	367
Purchased services	38,103	32,837	5,266
Supplies and materials	4,867	5,161	(294)
Other expenses	300	-	300
Capital outlay	44,000	42,310	1,690
	<hr/>	<hr/>	<hr/>
Total other support services	200,387	191,550	8,837
	<hr/>	<hr/>	<hr/>
<b>TOTAL SUPPORTING SERVICES</b>	2,901,554	2,876,969	24,585
	<hr/>	<hr/>	<hr/>

**BATH COMMUNITY SCHOOLS  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
YEAR ENDED JUNE 30, 2008**

	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>COMMUNITY SERVICES:</b>			
Salaries	\$ 71,398	\$ 71,219	\$ 179
Benefits	17,683	15,511	2,172
Purchased services	3,496	3,179	317
Supplies and materials	5,490	6,290	(800)
<b>TOTAL COMMUNITY SERVICES</b>	<u>98,067</u>	<u>96,199</u>	<u>1,868</u>
<b>OUTGOING TRANSFERS AND OTHER TRANSACTIONS:</b>			
Payments to other governmental units	<u>171,237</u>	<u>164,480</u>	<u>6,757</u>
<b>TOTAL EXPENDITURES</b>	<u><u>\$ 7,911,596</u></u>	<u><u>\$ 7,872,921</u></u>	<u><u>\$ 38,675</u></u>



**BATH COMMUNITY SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

\$945,000 Bonds issued August 10, 1993

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 100,000	\$ 5,500	\$ 5,500	2009	\$ 111,000
100,000	2,750	2,750	2010	105,500
<u>\$ 200,000</u>	<u>\$ 8,250</u>	<u>\$ 8,250</u>		<u>\$ 216,500</u>

The above bond issue bears interest at rates ranging from 4.2% to 5.5%. The bond proceeds were used for refunding bonds from the 1988 School Capital Projects and Site Bond Issue.

**BATH COMMUNITY SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

\$5,585,000 Refunding Bonds issued February 12, 2008

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 350,000	\$ 145,301	\$ 100,981	2009	\$ 596,282
350,000	95,731	95,731	2010	541,462
345,000	90,481	90,481	2011	525,962
340,000	85,306	85,306	2012	510,612
340,000	80,206	80,206	2013	500,412
335,000	75,106	75,106	2014	485,212
330,000	69,663	69,663	2015	469,326
330,000	63,888	63,888	2016	457,776
325,000	58,113	58,113	2017	441,226
325,000	52,425	52,425	2018	429,850
325,000	44,300	44,300	2019	413,600
320,000	37,800	37,800	2020	395,600
320,000	31,400	31,400	2021	382,800
315,000	25,000	25,000	2022	365,000
315,000	18,700	18,700	2023	352,400
310,000	12,400	12,400	2024	334,800
310,000	6,200	6,200	2025	322,400
<u>\$ 5,585,000</u>	<u>\$ 992,020</u>	<u>\$ 947,700</u>		<u>\$ 7,524,720</u>

The above bond issue bears interest at rates ranging from 3.0% to 5.0%. The bond proceeds were used to refund bonds from the 1998 school capital projects fund.

**BATH COMMUNITY SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

\$103,746 Limited Obligation (Durant) Bonds issued November 24, 1998

Principal due May 15	Interest due May 15	Debt service requirement for fiscal year June 30	Amount
\$ 5,774	\$ 1,512	2009	\$ 7,286
6,048	1,237	2010	7,285
6,337	949	2011	7,286
36,146	12,804	2012	48,950
<u>6,954</u>	<u>331</u>	2013	<u>7,285</u>
<u>\$ 61,259</u>	<u>\$ 16,833</u>		<u>\$ 78,092</u>

This bond is not subject to redemption prior to maturity by the District and the District hereby covenants that it will not issue any other bonds or obligations for the purpose of refunding this bond. The 4.76% interest rates payable on this bond may be adjusted in the sole discretion of the Authority provided that no interest rate shall exceed the maximum rate permitted by law and no interest rate adjustment which causes the total interest payable on this bond to increase shall be permitted.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**BATH COMMUNITY SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

\$14,495,000 Bonds issued November 1, 2004 and partially refunded on September 27, 2006

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 350,000	\$ 140,469	\$ 140,469	2009	\$ 630,938
375,000	135,219	135,219	2010	645,438
400,000	129,594	129,594	2011	659,188
400,000	123,344	123,344	2012	646,688
425,000	116,844	116,844	2013	658,688
475,000	109,406	109,406	2014	693,812
575,000	100,500	100,500	2015	776,000
625,000	89,000	89,000	2016	803,000
675,000	74,156	74,156	2017	823,312
725,000	58,125	58,125	2018	841,250
750,000	40,000	40,000	2019	830,000
750,000	21,250	21,250	2020	792,500
100,000	2,500	2,500	2021	105,000
<u>\$ 6,625,000</u>	<u>\$ 1,140,407</u>	<u>\$ 1,140,407</u>		<u>\$ 8,905,814</u>

The above bond issue bears interest at rates ranging from 2.75% to 5.00%. The bond proceeds were used for erecting, furnishing and equipping an addition to and partially remodeling, refurbishing and re-equipping existing school buildings, acquiring and installing education technology, constructing and equipping improvements to the stadium and outdoor athletic facilities, erecting, furnishing and equipping a gymnasium and locker rooms as an addition to the high school and developing and improving the sites.

**BATH COMMUNITY SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

\$8,025,000 Bonds issued September 27, 2006

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ -	\$ 163,466	\$ 163,465	2009	\$ 326,931
105,000	163,466	163,465	2010	431,931
135,000	161,103	161,103	2011	457,206
140,000	158,066	158,065	2012	456,131
105,000	154,916	154,915	2013	414,831
50,000	152,553	152,554	2014	355,107
45,000	151,553	151,553	2015	348,106
40,000	150,653	150,654	2016	341,307
40,000	149,853	149,853	2017	339,706
60,000	149,053	149,054	2018	358,107
60,000	147,853	147,853	2019	355,706
685,000	146,653	146,654	2020	978,307
800,000	132,953	132,953	2021	1,065,906
810,000	116,953	116,954	2022	1,043,907
825,000	100,753	100,753	2023	1,026,506
825,000	84,253	84,253	2024	993,506
825,000	67,753	67,753	2025	960,506
825,000	51,253	51,253	2026	927,506
825,000	34,238	34,237	2027	893,475
825,000	17,119	17,119	2028	859,238
<u>\$ 8,025,000</u>	<u>\$ 2,454,463</u>	<u>\$ 2,454,463</u>		<u>\$ 12,933,926</u>

The above bonds have interest rates from 4.00% to 4.50%. The bond proceeds were used to refinance a portion of the 2004 bond issue and the remaining 1995 bond issue.

**BATH COMMUNITY SCHOOLS**  
**SCHEDULE OF BORROWINGS – STATE OF MICHIGAN**  
**JUNE 30, 2008**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Accrued interest	Net increase
1996 and prior	\$ 417,292	\$ 21,649	\$ 438,941
1997	411,863	31,094	442,957
1998	381,236	59,951	441,187
1999	342,437	75,995	418,432
2000	233,810	94,748	328,558
2001	217,000	107,362	324,362
2002	130,484	103,175	233,659
2003	56,168	90,428	146,596
2004		78,443	78,443
2005		84,514	84,514
2006	325,186	130,092	455,278
2007		160,609	160,609
2007 loan repayment	(135,256)	(14,009)	(149,265)
2008		151,354	151,354
2008 loan repayment	(189,930)	(140,933)	(330,863)
Total	<u>\$ 2,190,290</u>	<u>\$ 1,034,472</u>	<u>\$ 3,224,762</u>



**Maner,  
Costerisan  
& Ellis, P.C.**  
Certified Public Accountants

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Walter P. Maner, Jr. (1921-2004)  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
Bath Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath Community Schools' as of and for the year ended June 30, 2008, which collectively comprise Bath Community Schools' basic financial statements and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bath Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bath Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Bath Community Schools in a separate letter dated October 24, 2008.

Bath Community Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Bath Community Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management, others within the entity and the U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costurison & Ellis, P.C.*

October 24, 2008



**BATH COMMUNITY SCHOOLS  
JUNE 30, 2008**

**Schedule of Findings and Responses**

Finding 2008-1

Finding considered a significant deficiency

Criteria:

The District's books and records should accurately reflect all transactions which occurred during the fiscal year.

Condition

In February 2008, the District issued refunding bonds to refinance approximately \$5,600,000 of prior bond issues. The transaction was not properly recorded in the District's debt service funds.

Effect

The District's financial records were not accurate and journal entries, initiated by the auditor, needed to be recorded. Because the journal entries relate to an isolated and non-reoccurring transaction (bond refunding), the control deficiency is considered a significant deficiency.

Recommendation

The District personnel should be alert for special significant transactions that occur during the year and determine if the financial records need to reflect the transaction. The external auditors can be contacted to assist the District in the determination.

Client Response

We will consider the financial report consequences of future transactions and complete outside consultation when necessary.



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October 24, 2008

To Board of Education  
Bath Community Schools

In planning and performing our audit of the financial statements of Bath Community Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Bath Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 24, 2008 on the financial statements of Bath Community Schools. Our comments are summarized as follows.

### **Month-end Procedures Checklist**

During the recently completed audit, we were required by new professional auditing standards to review, inspect, test and gain a further understanding of the District's internal controls. The increased emphasis on documentation of procedures performed will continue into the future. We have provided District personnel with a month-end procedures checklist which can be customized further for your District. The purpose of this checklist is to provide District personnel with a centralized list of required month-end procedures, as well as a place to document who completed the procedure, and who reviewed the procedure performed.

We recommend the District consider implementing this checklist on a monthly basis to improve documentation of required month-end procedures and clearly document when and by whom the procedure was performed and reviewed.

### **Uninsured Bank Deposits**

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding; there are limits to FDIC insured balances. Generally, the limits are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). Districts may also request certain funds be collateralized by the bank. There are other options regarding investing surplus funds from investment pools and treasury investments to commercial paper.

We are not investment advisors; however, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review the District's investment policy to ensure it continues to satisfy the District's goals.

### **Expense Reimbursements**

It was noted during the course of the audit that expense reimbursements to the superintendent are not documented as reviewed and approved by a board member. The District currently requires appropriate levels of approval of all expense reimbursements for employees. We recommend that documentation of review and approval of the superintendent's expense reimbursements be done in accordance with the policy maintained for all other employees. This additional documentation will protect both the District as well as the employees in the event there is a question of a reimbursement made.

### **Contracted Services**

The District uses the services of an independent consultant for the business manager position. A written contract for these services could not be located. To ensure that the District's rights and confidentiality are protected, we recommend that all such arrangements with outside consultants and independent contractors be formalized in a written contract that includes the contract term, responsibilities, rate of pay, and a confidentiality agreement.

### **Documentation of Pay Rate Changes**

During the course of our audit, we noted an employee being paid at a rate inconsistent with the documented union wage rate. Although through inquiry it was determined that this adjustment was approved by the superintendent, there was no documentation of the approval. We recommend that all changes in previously approved wage rates or union wage scales be documented with the appropriate authorization.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

This report is intended solely for the information and use of Bath Community Schools, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Maner, Costurison & Ellis, P.C.*



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October 24, 2008

To the Board of Education  
Bath Community Schools

We have audited the financial statements of Bath Community Schools for the year ended June 30, 2008, and have issued our report thereon dated October 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Bath Community Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Bath Community Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 12, 2008.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bath Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

We did not identify any sensitive disclosures.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Please refer to the Schedule of Findings and Responses included with other communications referencing a significant deficiency for incorrectly recording the 2008 Refunding Bond Transactions.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 24, 2008.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Bath Community Schools' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Bath Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the finance committee, Board of Education and management of Bath Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maner, Costurison & Ellis, P.C.*